Chapter 18
Taxation and the attack on the Affirmative State

Final Draft, August 2009

What makes a society democratic is not simply that political officials are elected in a properly
democratic manner, although that is obviously important. A democratic society is also one in
which people have the power through their political institutions to make collective decisions over
matters of public concern. Democracy is thus a question of the scope of public authority, not
simply of the way that authority is exercised. A society is less democratic when the public
domain is severely narrowed, and decisions with large collective ramifications are made
privately. This implies, as we argued in chapter 16, that we can make a meaningful distinction
between matters of public concern and private matters. This is certainly a difficult and hotly
contested task, but whatever else “public” might mean, it includes the provision of a wide range
of public goods and the regulation of the market in ways that minimize its negative externalities.
To do these things, the state needs resources. In a capitalist society in which most of the
economy is organized through privately owned enterprises and most income is earned through
market activity, the way this is accomplished is through taxation.

This chapter explores the problem of taxation and the uses to which taxes are put by the
democratic state. Taxation might seem to be a dry, technical topic, of concern mainly to
specialists. This would be a mistake. Taxation is at the very core of how a democratic capitalist
society like the United States works. It raises fundamental questions about the prospects for
democracy and the conditions for fairness in societies in which so much power is vested in
private property and the market.

We will begin by exploring different ways of theoretically understanding the idea of
taxation and the problem of what it means for a tax system to be “fair.” We will then look at
taxation in the United States, examining a number of myths about the tax system. The chapter
will conclude with a discussion of anti-tax politics and the assault on the affirmative state.

I. WHAT IS TAXATION?

There are two sharply different ways of thinking about taxation:

(1) Taxation as the public taking resources \textit{from} the private, and

(2) Taxation as \textit{the division of the economic pie} between private and public shares.

In the first of these the economic pie is produced by private firms and individuals, and then the
state comes in and coercively takes part of this pie for public purposes. In the second, the
economic pie is the result of complex cooperation among people in both public and private
spheres and then a set of rules are established to divide the pie between different purposes.

\textbf{Taxation as the Public Taking from the Private.}

This is the most common view. Here is how it goes. People work and earn an income through
various activities. Some get their income in the form of a wage. Some get their income as a
return on investments. Some get it by owning a business, employing others and making a profit.
Some people win the lottery and others play poker in Las Vegas. The important thing is that regardless of how people earn their livelihood, this income is their personal, private property. If you earn it, it is yours and you have a right to it. The government, then, takes some of your income away from you for public purposes in the form of taxes. The tax level may be the result of democratic decisions, but it is still the case that the government has taken something which belongs to you away from you through taxes. There is thus always something a bit suspect about this. Somehow this taking away from you what is rightfully yours feels like an abridgement of your freedom, your liberty. Maybe this is still on balance acceptable, but only “on balance”. The burden of proof is on the state to justify its need for your money. Indeed some people like to call the point in the year where you have earned enough to pay all of your taxes as “freedom day”: up to that point you are working “for the government”; after that point you “working for yourself.”

The extreme libertarian version of this understanding of taxation proclaims “taxation is theft”. Grover Norquist, the conservative political analyst who played an influential role in the anti-tax movements of the beginning in the 1980s, explained that the state should not help the needy “because to do that, you would have to steal money from people who earned it and give it to people who didn't. And then you make the state into a thief….Taxation beyond the legitimate requirements of providing for justice is theft.....”\(^1\) So long as you yourself did not personally agree to things taxes are being used for – even if they were decided democratically – then the taxes you are paying are being coercively taken from you, and this makes it equivalent to theft. Most people do not agree with this rhetoric but they still accept the core intuition that what you earn is rightfully yours and this suggests that there is always something suspect about taxation.

**Taxation as the division between public and private shares of total income.**

An alternative way of thinking about taxation is to see taxation as a practical way of dividing up the total pie between private uses of income and public purposes. The “total pie” consists of all the goods and services produced in a society. It is the result of our combined, interdependent, collective effort occurring within a complex matrix of institutions, “public” and “private”. It is a genuinely social product. No one is responsible for the fact that they are born into a highly productive, advanced industrialized society capable of producing so much. That is part of our collective heritage from the efforts and ingenuity of past generations. We collectively inherit this and together through a complex process of cooperation we produce “the pie”. If you tried to produce your own income in isolation from this social context and social cooperation, your standard of living would plummet. If Bill Gates were born in the highlands of Peru he would not have become a multibillionaire. This is not to say that there is no meaning to the idea that individual effort matters and that individuals bear some responsibility for what they themselves contribute to this total pie. But the deeper reality is that each individual’s contribution is so deeply dependent on the complexities of inter-dependence, social cooperation, and interactions that it is an illusion that we can meaningfully identify how much a given person produces and how much comes from those collective interactions.

So, we have a total social product and we have to devise rules for dividing it up for different purposes. In these terms, what we call “capitalism” and “democracy” are particular ways of organizing these rules for social cooperation and allocation. In this distinctive form of society – capitalist democracy – the social rules are such that most of the production of goods

\(^1\) From an interview with Alain de Bottom in the 2004 television adaptation of his book, *Status Anxiety.*
and services is organized through privately owned firms separate from state institutions. Within this kind of society, this division is defended on the grounds of efficiency. Given this division, then, some mechanism needs to be devised to get resources to the state for public purposes. “Taxation” is the main device by which we organize this crucial public choice – how much of total social income to give to people for their private allocations and how much to use for public purposes. Private consumption is just as much a deduction from public purposes as the public use of resources is a deduction from private consumption.

If you think about taxation this way, then the resulting division may be desirable or undesirable, efficient or inefficient, conducive to human flourishing or harmful, but there is no meaning to the claim that people somehow really and truly “own” their income independently of the rules that govern these processes. In this way of conceiving taxation, it is still perfectly reasonable to say that taxes are too high – or too low – because the consequences of the division of total income between public and private uses may be undesirable or inefficient. If too much goes to public purposes, for example, people may not have much private incentive to work hard; if too much goes to private purposes, all sorts of important public goods may deteriorate. Too little spending on bridges increases the likelihood they will collapse. Too little spending on cleaning up toxic waste means that health may deteriorate. Too little spending on schools may mean that the labor force will be unprepared for new technologies, and so on. But these are practical considerations. It is not that high taxes are unjust or immoral; they may just be stupid.

It should be clear to everyone that in the United States, the first of these conceptions of taxation dominates most peoples’ views of the matter. This is reflected in much of the political rhetoric around taxes and tax cuts: As anti-tax conservative politicians are fond of saying: “you know better how to spend your money than do bureaucrats in Washington.” A tax cut lets you keep more of “your money.” Most people just assume that it makes sense to see taxes as a way for government to take something away from you that belongs to you.

Which of these views is “correct?” This is a difficult question to fully resolve. To answer it carefully would involve subtle philosophical issues about the nature of rights, private property, social justice and other matters, as well as methodological discussions about the way outputs are generated by the interplay of cooperation, individual action, and social institutions. While we endorse the second understanding of taxes, we won’t try to defend this here.

Regardless of one’s final judgment about which of these understandings of taxation is more adequate, there is a different set of questions which we can answer more simply: Who really benefits from a particular view of the problem? In whose interests is it to insist that taxation is a coercive infringement? Is this understanding more in the interests of the rich and powerful? Average citizens? The poor? Whatever else one might say about these issues, one thing is clear: people who are well positioned to be able to acquire a high income from private transactions in the market have an economic interest in making very strong claims about their rights to that income and treating taxation as a coercive infringement.

II. THE LOGIC OF INCOME TAXES

Now, let us suppose that we decide that taxation is legitimate, that in a democratic society it is right and proper for the democratically elected government to decide that a significant part of the total social product will be used for public purposes. Since the economy is itself organized in a capitalist manner – that is, it is a privately run economy – this means that in order to get
resources for these purposes in one way or another income has to be taxed. We will first look at the theoretical problem of what it means to say that a tax system is fair, and then look at the U.S. income tax system.

**Alternative understandings of tax fairness**

There are many different technical ways of gathering taxes. There are property taxes, corporate profits taxes, sales taxes, income taxes, payroll taxes. There are also fees charged for various government services which can be kind of a quasi-tax. For example, car registration fees are a kind of tax on driving a car, even though you only pay the fee if you have a car, particularly in a society in which nearly everyone needs a car to get around. In the earlier chapter on consumerism we briefly discussed the idea of a progressive consumption tax as a specific way of dampening excess consumption. We won’t discuss the pros and cons of these alternative kinds of taxes here. All of these taxes are ultimately taxes on income, whether they are technically a direct income tax or some other kind of tax, since they have the effect of diverting a certain amount of income from private to public uses. The issue we will address is the underlying principles that make this division fair or unfair.

What is the fairest way of doing this? Since we have to allocate resources to public purposes, how should we distribute the burdens of paying for this? There are three main ideas for what would be “fair”:

- Everyone pays the same tax. This is called a “poll tax”. For example, every person could pay $5,000 a year in taxes regardless of the level of their privately earned income.
- Everyone pays the same proportion of their privately earned income as a tax. This is called the flat tax.
- Everyone should have the same burden – that is, everyone should experience the taxes they pay as an equal sacrifice from the standard of living that they can generate through the private capitalist market.

Few people think the first of these is fair since poll taxes affect the living conditions of the poor vastly more than the rich. There have been times and places where poll taxes were important. The ability to pay the poll tax was a condition for full citizenship. But in no contemporary capitalist society is a poll tax or a head tax an important form of taxation.

There is much greater debate between the second and third principles. Some political conservatives argue in favor of a flat tax on the grounds that it treats everyone equally: everyone pays the same proportion of their privately acquired income as taxes. Treating everyone the same seems like a fair principle, and, after all, even with a flat tax the rich will still pay most taxes. If there are 100 people who earn $30,000 a year and 10 who earn $300,000 a year, and everyone pays 10% of their income in taxes, those 10 people will still provide half of all revenues to the state. Or, to put it slightly differently: each rich person in this example pays for 5% of the costs of running the state, while each lower income person pays only .5% of those costs.

The third option treats the problem of fairness as a question of the real burden experienced by each person. The underlying idea sees contributions the way we would evaluate many ordinary situations of cooperation among people. Think of a situation in which a group of people of different ages and strengths are unloading a truck. How much should each person carry? The
usual way people would answer this is to say that everyone should expend the same effort, experience the same burden from the task. Clearly this means that strong people should carry heavier loads.

What does “equal burden” mean in the case of taxation? Let us compare a person who earns $10,000 a year with a person who earns $100,000 dollars a year. A flat rate tax means that each person pays the same proportion of their earnings as taxes. Suppose the tax rate was 10% a year. The poorer person would then pay $1,000 in taxes and the rich person $10,000. Is this fair?

The third concept of tax fairness would ask whether or not in this case both of these people are making an equal sacrifice for the public good. The way to think about this is to ask the question in a slightly different way. Suppose that the person who earned $10,000 got a pay raise of $1,000, resulting in a new income of $11,000/year. This would mean that he or she would pay $100 more in taxes if the flat rate tax rate were 10%. Now suppose the rich person earned $1,000 more. How much of this $1,000 would cause the equivalent “pain” or sacrifice for the rich person as the $100 taxes deducted from the poor person’s extra income? Surely we don’t think that $100 matters as much for the rich person as for the poor person do we? Perhaps $100 for the poor person has the same bite as $800 for the rich person. This means that in order for their sacrifice in paying the taxes needed to pay for public goods to be the same, the rich person would have to pay 80% taxes on that additional $1,000.

The tax that is paid on the additional $1000 of income in our example is what is meant by the “marginal tax rate”. The word “marginal” here refers to the tax rate on additional income given the level of income one already has. Economists like to talk about the “marginal utility” of income. “Utility” is the economist’s way of talking about the satisfaction one gets from something. The marginal utility of income thus refers to how much additional satisfaction a person gets from earning additional income, given the level of income they already have. Once one’s income reaches a certain level, then the marginal utility of additional income begins to decline – that is, one gets less and less additional satisfaction from each additional dollar earned. What this implies in terms of the equal burden principle of tax fairness is that the marginal tax rate has to increase with income so that every person, regardless of income, will experience the same “disutility” (loss of satisfaction) from paying taxes. This is called a “progressive income tax.”

Now, it could be that a marginal 80% tax rate on incomes above certain level would not be politically feasible because of the power of the rich. They would put up such a fuss at this marginal tax rate and use their power to turn that fuss into political pressure, that it simply could not be adopted. Or it might be the case that at the equal burden level of taxation the rich person would stop working for that additional $1,000, and thus the 80% marginal tax might be inefficient. But this does not mean that it is unfair; efficiency and fairness are two different things. For a tax system to be fair in a society in which people receive very different incomes from the private market economy, the real burden represented by those taxes should be shared equally, and this means that tax rates should increase steeply with income.

The U.S. Progressive Income Tax: how it works

It will be helpful to quickly run through the mechanics of how the U.S. Federal income tax system works in order to further clarify the logic of a progressive tax system. Table 18.1 presents the marginal tax rates for U.S. Federal income taxes in 2008. In this table a “tax bracket” refers
to the divisions at which tax rates change within a progressive tax system. They define the cut-off values at which income beyond that point is taxed at a higher rate. In 2008 there were 6 tax brackets, the highest being on incomes above $357,701 for a single person. In the example in the table, a person who has a taxable income of $90,000 would pay a total tax of $19,171, or a total tax rate of 21.3%. This is the result of combining the taxes for the income earned in each of the first four tax brackets.

-- Table 18.1 about here --

Complexities in the tax system

Once you have decided to have a progressive income tax of the sort represented in Table 18.1, you immediately face a host of problems that need solving. The first, and most basic, is “what should be included as ‘taxable income’?” Should it be every penny a person earns? Or should we allow a person to deduct certain kinds of costs from this total income before calculating? Some deductions seem completely obvious. One family has five children and has total household gross income of $40,000/year, another is a single person who also earns $40,000/year. Should they both pay the same tax? The equal burden idea suggests that the family with five children should pay less, and this means trying to figure out how much we should deduct from the $40,000 of that family. The deduction from total income that simply reflects the number of people supported by the income is called “personal exemptions”. In addition the US tax code includes what is called a “standard deduction” which is meant to reflect a certain amount of income that should not be taxed at all in every household. In 2008 the personal exemption was $3,500, and the standard deduction was $5,450). This means, in effect that for a single person, the actual tax rate would be 0% if the earned less than $8,950.

Once deductions are allowed, however, a door is open for a new kind of policy since it is now possible to create incentives for people to do things by allowing them to take tax deductions for certain kinds of costs. These deductions, in effect, become a form of disguised government spending. Consider charitable deduction. Suppose you earn $200,000 and you give $10,000 to a charity. If your marginal tax rate was 35%, you would normally have paid $3,500 in taxes on that $10,000 if you had kept that income and spent it on personal consumption. When you give the $10,000 to the charity, the government reduces your taxes by $3,500. What this means is that in reality it only cost you $6,500 to donate $10,000. In practice the government has spent $3,500 in taxes for the charity of your choice! This is exactly the same as if the government had a procedure whereby you received no tax deduction for charitable contributions, but the government would pay a charity a direct subsidy for every dollar you gave the charity based on your income tax bracket: if you sent $6,500 to the charity, the government would send it $3500. This is why such policies are referred to as “tax expenditures”: the government is subsidizing private charities through the use of the tax code.

Another very important example of tax expenditures is housing. One way to encourage people to buy homes, is to allow them to deduct their mortgage interest payments from their income. The more expensive the house, the bigger the mortgage interest payment and thus the bigger the deduction. The tax system, in effect, not only subsidizes private home ownership – which might be a good public policy – but subsidizes rich people more than everyone else. A person with taxable income of $50,000 a year and $10,000 a year in interest payments on a mortgage will get a tax subsidy of $2,500 (because of a marginal tax rate of 25%). A person with an income of $500,000 a year and $50,000 a year in interest payments will receive a
subsidy of $17,500 (because of a 35% marginal tax rate). What’s more, if you compare these tax subsidies for private housing with direct subsidies for public housing for the poor, as noted in chapter 12 in the U.S. there is vastly more subsidy for private homes of middle and upper income people than public housing for the poor. In the 2004 tax subsidies for homeowners were about 4 times greater than all subsidies combined for housing for the poor. These payments to homeowners must be considered real subsidies; they just take an indirect form.

The sum total of all of these deduction are often called tax “loopholes” – ways in which people can reduce their tax liability and legally avoid paying taxes. Some of these increase the fairness of the system – especially the deductions for having children and health care expenses. Others may be good public policy, such as the charity deductions or the mortgage deductions since it is probably a good thing to encourage private charity and home owning. But many of these loopholes end up being very clever devices for rich people to dramatically reduce their income tax obligations, and sometimes avoid paying taxes altogether. The tax code contains many complex mechanisms for calculating the depreciation of various kinds of assets, profits and losses from investments, various kinds of “costs” of doing business. With clever accountants and tax lawyers, these devices make it possible for many very wealthy people, especially those whose income is derived from investments and businesses, to virtually avoid paying any income taxes at all. The specific ways in which tax policy and rules are created in the US, through a political system in which money plays a very big part in electing politicians, has encouraged the massive proliferation of all sorts of special provisions in the tax code creating tremendous complexity and special privileges.

Levels of taxation and fairness of its burden

Few issues are more contentious in American politics than taxation. Every time a new public program is proposed (with the exception of military spending), conservatives object on the grounds that it will raise taxes, which will dampen investments and harm our competitiveness with other nations. Defenders of government programs are referred to as “tax and spend liberals”. The image that is created is that Americans are heavily taxed, that these taxes cripple American business, and that in any event most of these taxes are spent on wasteful endeavors.

What is the reality of taxation in the United States? The first thing to note is that compared to other developed capitalist countries, aggregate rates of taxation are quite low in the United States. Table 18.2 indicates the total taxation as a percentage of GDP in OECD countries in 2006. In the United States just under 29% of our total GDP was paid in taxes in 1999. Roughly this means that 70% of national income is allocated to private consumption and investment and under 30% to public purposes. In Canada, a country in many ways similar to the United States the figure is 33%, which is a little below the average for all developed countries. In Sweden the figure is almost 50%. Sweden is a prosperous capitalist country with a high standard of living for its citizens. Corporations are privately owned and they attract investments the same way they do in the United States – by offering acceptable rates of return. Yet half of the economic pie goes to the state through taxes to be used for public purposes compared to less than 30% in the United States. Clearly there is nothing fundamentally incompatible with a much higher rate of taxation than in the United States and a well-functioning capitalist economy.
What about the fairness of the tax burdens in the United States? We do have a progressive income tax which is at least nominally consistent with the equal-burden principle. On the other hand, there are a number of taxes that clearly fall more heavily on lower income people. Sales taxes are flat rate taxes on purchases, and since the poor consume a much higher proportion of their income than do the rich, this constitutes a higher proportion of their income. Social security taxes are also regressive. In 2009, the social security tax of 6.2% was paid only on the first $106,800 of earnings. This means that a person who earns $30,000 a year would pay a tax of 6.2%, but a person who earned $300,000 would have an effective social security tax rate of only 2.2%. This, like the sales tax, constitutes a much greater burden on low income people than on high income people. This doesn’t even come close to an equal burden principle of tax fairness.

The unfairness of the tax system is particularly striking for local and state taxes. Table 18.3 and Figure 18.1 shows the U.S. average state and local taxes as a share of family income for non-elderly married couples. For the richest 1% of families, state and local taxes average 7.9% of their family income. For the lowest 20% the figure is 12.5%.

What about the rates of taxation on labor market earnings and rates of taxation on returns to investments? From the point of view of individuals, income is income regardless of its source: however you get it, you can spend it as you wish. The tax system, however, treats income very differently depending on its source. A family with a net household income of $400,000 a year, pays a marginal tax rate on earnings of 35%. This means that if they earned an additional $100,000 they would pay $35,000 in additional taxes. If they sold some long term investments and made $100,000 dollars profit on the sale they would only be taxed at a rate of 15% on this additional income. This is called the “capital gains tax”. Since income from capital gains goes disproportionately to wealthy individuals this again violates the equal burden principle of fair taxation.

Overall, then, we can say the following about taxation in America: First, the United States is not a heavily taxed nation. In dividing up the fruits of the collective productive efforts of Americans, less than a third is allocated to public purposes through the state. Since this is so much less than most other comparable countries, this suggests that from the point of view of the constraints created by living in a capitalist economy, there is considerable room for the expansion of taxation – for shifting the balance between public goods and private consumption – if there was a political will to do so. Second, the distribution of burdens in the American tax system falls far short of the ideal of equal sacrifice. Not only does the United States have the most unequal distribution of income of any developed capitalist country, but the beneficiaries of this unequal distribution do not pay their fair share of the taxes needed to fund the public goods and state regulations that sustain their advantages.

### III. THE ATTACK ON THE AFFIRMATIVE STATE

Taxation is the way the state gets its resources in a capitalist society. Democracy depends crucially on what the state does with those resources. The unfairness of a tax system would be of less concern if what the state does with those resources is to counteract the inequalities and deprivations generated within the market and promote collective welfare through the provision of public goods.
The “affirmative state” is the term we use to describe a state that plays an energetic and positive role in the society in solving collective problems and advancing public purposes. This includes a wide range of things: providing education, building infrastructure like roads and sewers, providing health care, public safety, subsidies for the arts and recreation, large support for scientific research and technological development, and so on. The affirmative state also involves regulations of various kinds of activity for the public good: regulation of pollution, health and safety in the workplace, food quality, truthful advertising, and many other things.

In the Twentieth century there were episodes in which the affirmative state has expanded, sometimes dramatically, and episodes in which it came under concentrated attack. The two biggest episodes for the expansion of the affirmative state in the 20th century were the New Deal in the 1930s and the Great Society in the 1960s. In both of these periods of reform, the affirmative state was expanded because of popular democratic mobilization – the union movement was especially important in the 1930s and the civil rights movement in the 1960s. These popular mobilizations lead to dramatic expansions of the government’s role in society and, accordingly, a shift in the division of the total pie between private consumption and public purposes.

The quarter century beginning in 1980 witnessed a relentless attack on the affirmative state, an attack that tried to undo the popular gains of the previous half century and create a world in which democratic power played a much more marginal role in social affairs. While the attack was only partially successful, it has seriously undermined state capacity to deal with the challenges of the 21st century.

Arguments against the affirmative state

Well before coming to power with the Reagan election in 1980, conservative foundations and political analysts had been elaborating a series of arguments against the affirmative state. Three were particularly important and became central to the ideological justification of policy initiatives against the affirmative state beginning in the 1980s: taxation is fundamentally illegitimate; government officials have mostly malevolent goals; and governments are incompetent even when officials have good intentions.

The attack on taxation was a particularly important issue both because it had a certain real direct appeal to many voters who wanted to keep more of “their” money, and because delegitimizing taxes was an indirect way of undermining the state’s capacity to do anything. Grover Norquist argued that the key purpose of massive tax cuts is primarily to “starve government”. As he put it in a frequently cited quip: “I don't want to abolish government. I simply want to reduce it to the size where I can drag it into the bathroom and drown it in the bathtub.” To accomplish this requires the constant reiteration of the idea that taxation is oppressive, that taxes are too high, that the government is taking your money away from you. This attack on taxation was hugely successful, to the point that few politicians believe it is

---

2 This is not the conventional term used to describe the array of state policies and programs which we include in the expression “the affirmative state.” We feel it is more appropriate than “the welfare state,” since this term has come to have a quite narrow meaning around reduction of risk and services for the poor. We also prefer the “affirmative state” to the “interventionist state”, which does not imply the kind of positive role for society as a whole that we envision.

feasible to say in a straightforward way: “There are desperately important problems our society faces that can only effectively be solved through public action, and this requires resources. The only responsible way to provide these resources is through fair taxation. Taxes are too low in America.” Even President Obama, while acknowledging in 2009 the need for new taxes to fund initiatives such as health care reform, felt compelled to say he would only raise taxes on the wealthiest top 5% of Americans and that most people would get a tax cut.

The second prong of the attack on government was to characterize government officials and those politicians that supported a more expansive view of government programs as mainly motivated by power for its own sake. Big Government, the argument went, does not have the interests of the country at heart, or even of the people who vote for politicians who support Big Government. Bureaucrats within an affirmative state are only concerned with accumulating power “in Washington” and imposing their values and priorities on everyone else. At its core, big government is an instrument of oppression.

The final line of attack challenged the competence of government to do anything well. The private market solution to problems and market provision of services is held up as efficient and responsible; government provision as incompetent and wasteful. Because firms within the market are driven by competition, good solutions thrive and bad solutions disappear. Government programs are immune from competition, and thus ineffective and wasteful programs continue out of inertia (buttressed by the self-interest of bureaucrats). Government regulations for the public good are denounced as heavy-handed bureaucracy mired in red tape that causes more harm than good. Even when the original purposes for a government bureaucracy are laudable – improved air quality, good education, better public transportation – government simply cannot deliver the goods. The combination of government malevolence and government incompetence means that even if there are various kinds of problems generated by imperfections of the market, government failures will almost always be worse than market failures.4

All of these attacks had public resonance, particularly in the absence of well organized, visible and articulate voices countering the arguments. Of course most people would rather pay lower taxes, so unless they are reminded that there are critical public purposes which depend on taxation and convinced that these public goods will actually be provided, then they are likely to be receptive to anti-tax arguments. In terms of government malevolence and incompetence, there are certainly examples of stupid regulations and bureaucracies that interfere unnecessarily with business. In order to prevent businesses from polluting, for example, there may be excessive paperwork imposed to track the disposal of toxic materials. And many politicians and bureaucrats are certainly more concerned with advancing their careers and increasing their power than with the public good. It is always possible to find such examples. The question is whether such government failures should indict the very idea of government regulation and government provision of public goods, or whether what is needed is reform and revitalization of democratic governance. Should the problems of the democratic affirmative state be dealt with by a retreat from democracy or a deepening of democracy? The answer by leading political forces in the United States from the last decades of the twentieth century to the beginning of the 21st century was a narrowing of democracy.

---

4 The noble prize economist Milton Friedman, for example, acknowledges that negative externalities are a significant problem within markets and further, that there are tendencies within some kinds of markets for firms to develop monopolistic power. Still, he argues, this may not justify government intervention if such intervention is doomed to fail. If the cure is worse than the disease it is better to just let things alone.
Taken together, these attacks crystallized into a doctrine of the appropriate role for the state that came to be known as “neo-liberalism.” This is basically the idea that “free” markets, unimpeded by government regulations and government programs do a much better job at solving almost all problems than do states. While states do have a legitimate role in providing for national defense and protecting private property rights -- and thus neoliberals support a strong (and expensive) national defense and police and prisons to combat crime -- other activities of the state should be kept to a bare minimum. While the full force of neoliberalism was never put into place, it defined the basic terrain of political debate over the role of government and public policy from the 1980s.

In the course of the 1980s this conservative economic doctrine became linked to a range of cultural themes that were salient to social conservatives – especially opposition to abortion and homosexual rights, support for an expanded role of religion in public life, and the protection of rights to own and carry guns. This was not really a comfortable alliance, for the neoliberal economic position was rooted in libertarian desires for a largely passive, non-intrusive state, whereas social conservatives wanted the state to prohibit abortions, restrict the rights of homosexuals, control pornography, and promote religion. None of these positions fit with libertarian ideas. Furthermore, many social conservatives were working class people adversely affected by neoliberal economic policy and had material interests in line with a more expansive affirmative state. Nevertheless, the political alliance was forged in the 1980s and proved to be powerful and fairly cohesive for over two decades.

Strategies against the affirmative State, 1980-2008

Beginning with the election on Ronald Reagan, and continuing through the George W. Bush Administration, neoliberal ideas defined much of the terrain of political debate in the United States. Even during the Clinton period in the 1990s these principles were operative, if perhaps in a somewhat softened way. It was Clinton, after all, who proclaimed that “the era of Big Government is over” and who supported the deregulation of the banking and financial services sector in ways which helped create the conditions for the financial collapse of 2008. Of course, in practice actual policies were often half-baked compromises between neo-liberal principles and various kinds of political pressures, and there are certainly many instances where otherwise very conservative politicians nevertheless supported expensive government subsidies for various things when it suited their political interests. The strong support for agricultural subsidies by right-wing politicians in agricultural states and the support for subsidies for the oil industry by politicians from oil-producing states are just two notorious examples. Nevertheless, in spite of considerable hypocrisy and inconsistency, the anti-state principles of neoliberalism did shape much of the political agenda for a quarter of a century.

Five clusters of policies attempted to put into practice the core ideas of the neoliberal agenda:

1. **Cutbacks in publicly funded programs.** The simplest way of undermining the affirmative state is simply to reduce funding for its core programs. Less tax money spent on higher education means higher tuitions, so large public universities begin to look more like private institutions, seeking private endowments and grants. Universities like the University of Michigan, The University of California at Berkeley, UCLA, the University of Wisconsin, and many others, receive less than 25% of their funding through direct state support. Less money spent on public education makes it more likely that parents who can afford it will seek private alternatives. Less
money spent on drug treatment programs and mental health services means that the waiting lists grow long and people either go without treatment or seek alternatives through private services and charity. And in all of these cases, the deterioration of the services adds credibility to the accusation that the state cannot to things well.

2. **Deregulation.** One of the central mantras of the attack on the affirmative state is the need to reduce government regulation of the market. Regulations are attacked as increasing the cost of doing business, reducing competitiveness and, ultimately, hurting everyone. While it rarely happens that regulations are entirely eliminated, particularly since some regulations are so clearly in the interests of corporations themselves, many sectors of the economy have become much less monitored and constrained by democratically imposed rules. Before the 1990s, banks were quite restricted in the kind of financial services they could offer. The deregulation of banking resulted in the vast expansion of opaque and risky investments. The deregulation of airlines ultimately lead to a dramatic consolidation of airline companies, the complete domination of certain markets by single providers, and significant reductions in services to many smaller cities. As we will see in chapter 19, the deregulation of broadcasting and mass media lead to the elimination of local ownership of thousands of radio stations and the consolidation of huge media corporations controlling TV, newspapers, and radio, with a single corporation often dominating multiple sources of news in a given market.

3. **Lax enforcement.** Rules and regulations of the state are not self-enforcing. They require government agencies to specify the details of the rules to be followed, gather information, monitor compliance, decide when an infraction matters, and so on. Without any change in the underlying legislation, a form of regulation can be gutted either by appointing administrators who change critical details of regulatory and enforcement policies, or by reducing the funding and staffs to such an extent that the agency becomes incapable of effectively enforcing regulations. Both have occurred since the early 1980s. The critical agency for monitoring and enforcing laws about labor unions in the United States is the National Labor Relations Board (NLRB). This is the body that certifies elections to form unions and responds to claims of abuses of employers. Since the Reagan administration the leadership of the NLRB has generally been very hostile to unions, and the funding has been cut to the point that the delays in hearing grievances about abuses mean that employers almost never have to worry about enforcement. Since the early 1980s, there has been a dramatic reduction in the number of inspectors for food safety. Some people argue that this has increased the risks of food-born contaminations. The Occupational Health and Safety Administration cut its inspection staffs for workplace health and safety. It has been estimated that there are now so few inspector that it would take fifty years for every workplace in America to be visited once. Fewer tax auditors in the Internal Revenue Service means less consistent enforcement of tax codes.

4. **Privatization.** The most straightforward strategy for undermining the affirmative state has been to shift certain tasks from the public to the private sphere. There was a time in the United States in which water treatment plants, electrical utilities, garbage collection, and many other utilities were frequently owned directly by municipalities. The justification for this was that since these were natural monopolies, real competition was not possible and thus direct public ownership would be more efficient than private ownership. In the last decades of the twentieth century these utilities have been mostly sold to private corporations. Many ordinary government administrative tasks – accounting, clerical work, computer services, processing applications for a wide range of services (passports and visas, welfare, social security) – have been outsourced to
private firms. This outsourcing has reached the point that the capacity of the government to directly do this kind of ordinary administrative work has declined significantly. While this has been done in the name of increasing efficiency, often the motivation is avoiding union constraints, since the public sector is much more heavily unionized than the private sector firms that takeover state functions. In some parts of the United States, major highways have been partially privatized through long-term contracts to gather tolls and maintain the roadway. Private for-profit prisons have become an integral part of the prison system. Private corporations provide a wide range of services for the U.S. military, including prisons, interrogations, security, convoys, as well as purely support activities like food, canteens, and housing. In Iraq by 2008 there were more employees of private military corporations working with the US military than there were American soldiers.

5. Public-private partnerships in the delivery of social services. One final, somewhat ambiguous strategy for weakening the affirmative state goes under the rubric “public-private partnerships”. Sometimes instead of simply divesting itself of certain responsibilities, private sector organizations are invited to be “partners” with government in the provision of services of various kinds. After the welfare reforms in 1996, in many states the actual administration of welfare services to the poor were run by private sector organizations. Some of these are non-profit organizations, but others are ordinary for-profit firms that take over these state services. In the 1990s, Lockheed-Martin, one of the major corporations producing military armaments, took over a significant portion of the welfare services for the poor in Texas and a number of other states. Charter schools and various kinds of school voucher programs allow for public schools to be run by private organizations, including sometimes by for-profit, market-driven education-service firms. In all these instances the private sector partners are nominally supervised by public agencies, but frequently such supervision is so lax that the service in question becomes much more like a private sector activity. The ambiguity in this strategy of weakening the affirmative state is that sometimes these partnerships open the door for genuine, democratic participation by communities that would otherwise be excluded and alienated from politics. When this happens, there is the potential for revitalizing democracy rather than undercutting it. We will examine this possibility in chapter 23.

Taken together, these policies constituted a retreat of democracy and an enlargement of privatized ways of organizing social life. The retreat never went so far as to fully dismantle the affirmative state, but it did significantly weaken the regulatory capacity of the state and its ability to raise resources for public purposes.

When the balance of political forces began to shift in the mid-2000s, culminating in the defeat of the Republican Party in national elections in 2006 and 2008, supporters of a revitalized affirmative state thus faced very serious obstacles to expanding the scope of public goods and collective problem-solving. The issue is not, at its core, that the severity of the economic crisis of this period meant that the society could not “afford” expansive programs. The level of taxation in the United States is sufficiently low compared to other countries that there is no reason to believe that a higher tax equilibrium was impossible for strictly economic reasons. The problem

---

5 For a good discussion of the relationship between public-private partnerships and the erosion of democracy, see Dorothy Holland, et. al., Local Democracy Under Siege: Activism, Public Interests, and Private Politics (NYU Press, 2007)
is mainly political and institutional, not economic. The political coalition for decisively shifting priorities from private consumption and investment to collective needs and public goods was still relatively weak and fragmented, and no broad consensus for a longer term strategy of high taxation for public purposes had been forged. Institutionally, the hollowing out of the state of the previous quarter century meant that the administrative capacity of the state had seriously weakened to be able to effectively gather information and run new programs. Whether or not the political will and energy exist to rebuild state capacity and construct a more publicly-weighted balance between the public and private division of the economic pie is uncertain.
Bracket 1. 10% on income from $0 to $8,025
Bracket 2. 15% on income from $8,026 to $32,550
Bracket 3. 25% on income from $32,551 to $78,850
Bracket 4. 28% on income from $78,851 to $164,550
Bracket 5. 33% on income from $164,551 to $357,700
Bracket 6. 35% on income $357,701 and above

Example: A person who has $90,000 in taxable income will pay total income taxes of $16,171, or a total rate of 21.3%, as a result of paying taxes within the first four tax brackets as follows:

<table>
<thead>
<tr>
<th>Income Bracket</th>
<th>Income earned in this bracket</th>
<th>Tax rate within brackets</th>
<th>Tax due</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$8,025</td>
<td>10%</td>
<td>$802</td>
</tr>
<tr>
<td>2</td>
<td>$24,524</td>
<td>15%</td>
<td>$3,679</td>
</tr>
<tr>
<td>3</td>
<td>$46,299</td>
<td>25%</td>
<td>$11,575</td>
</tr>
<tr>
<td>4</td>
<td>$11,149</td>
<td>28%</td>
<td>$3,122</td>
</tr>
<tr>
<td>Totals</td>
<td>$90,000</td>
<td>21.3%</td>
<td>$19,171</td>
</tr>
</tbody>
</table>

Table 18.1
An illustration of the U.S. income tax brackets, 2008 tax rates
Chapter 18. Taxation and the attack on the affirmative state

<table>
<thead>
<tr>
<th>Country</th>
<th>Tax Revenue as % of GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>49.1</td>
</tr>
<tr>
<td>Sweden</td>
<td>49.1</td>
</tr>
<tr>
<td>Belgium</td>
<td>44.5</td>
</tr>
<tr>
<td>France</td>
<td>44.2</td>
</tr>
<tr>
<td>Norway</td>
<td>43.9</td>
</tr>
<tr>
<td>Finland</td>
<td>43.5</td>
</tr>
<tr>
<td>Italy</td>
<td>42.1</td>
</tr>
<tr>
<td>Austria</td>
<td>41.7</td>
</tr>
<tr>
<td>Iceland</td>
<td>41.5</td>
</tr>
<tr>
<td>Netherlands</td>
<td>39.3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>37.1</td>
</tr>
<tr>
<td>Hungary</td>
<td>37.1</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>36.9</td>
</tr>
<tr>
<td>New Zealand</td>
<td>36.7</td>
</tr>
<tr>
<td>Spain</td>
<td>36.6</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>35.9</td>
</tr>
<tr>
<td>Portugal</td>
<td>35.7</td>
</tr>
<tr>
<td>Germany</td>
<td>35.6</td>
</tr>
<tr>
<td>Poland</td>
<td>33.5</td>
</tr>
<tr>
<td>Canada</td>
<td>33.3</td>
</tr>
<tr>
<td>Ireland</td>
<td>31.9</td>
</tr>
<tr>
<td>Greece</td>
<td>31.3</td>
</tr>
<tr>
<td>Australia</td>
<td>30.6</td>
</tr>
<tr>
<td>Slovak Republic</td>
<td>29.8</td>
</tr>
<tr>
<td>Switzerland</td>
<td>29.6</td>
</tr>
<tr>
<td>United States</td>
<td>28.0</td>
</tr>
<tr>
<td>Japan</td>
<td>27.9</td>
</tr>
<tr>
<td>Korea</td>
<td>26.8</td>
</tr>
<tr>
<td>Turkey</td>
<td>24.5</td>
</tr>
<tr>
<td>Mexico</td>
<td>20.6</td>
</tr>
<tr>
<td>OECD Europe</td>
<td>38.0</td>
</tr>
<tr>
<td>OECD Total</td>
<td>35.9</td>
</tr>
</tbody>
</table>


Table 18.2 Total tax revenue as percentage of GDP, 2006
Table 18.3 U.S. average State & Local taxes as share of family income (for non-elderly married couples)

<table>
<thead>
<tr>
<th>Income Group</th>
<th>lowest 20%</th>
<th>Top 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales &amp; Excise Taxes</td>
<td>6.7%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Property Taxes</td>
<td>4.5%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>1.3%</td>
<td>5.0%</td>
</tr>
<tr>
<td>Total</td>
<td>12.5%</td>
<td>7.9%</td>
</tr>
</tbody>
</table>

Source: Field Guide to the American Economy, p.95
Figure 18.1 State and Local Taxes for rich and poor